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PRESENTATION

Operator

Good afternoon, ladies and gentlemen, welcome to the Maple Leaf Foods 2014 fourth-quarter results conference call hosted by Mr. Michael McCain. Please be advised that this call is being recorded. (Operator Instructions) I will now turn the meeting over to Mr. Michael McCain. Please go ahead, sir.

Michael McCain - *Maple Leaf Foods Inc. - President & CEO*

Thank you very much and good afternoon, everyone, thank you for joining us this afternoon. On today's webcast we will discuss Maple Leaf Foods financial and operating results for the fourth quarter of 2014. The news release and today's webcast presentation are available at MapleLeafFoods.com under the Investors section.

As you know, some of the statements made on this call may constitute forward-looking information and future results may differ materially from what we discuss. Please refer to our 2014 MD&A and other information on our website for a broader description of operations and risk factors that could affect the Company's performance.

I will begin today with an operating review and then I will turn over the call to Debbie Simpson, our Chief Financial Officer, to provide other financial information. We'll then open up the phone lines for your questions.

If I could please turn your attention to page 2 of the presentation. The fourth quarter capped off what can best be described as a pivotal year for Maple Leaf. We are heading into 2015 with very positive momentum. We made a significant improvement in adjusted operating earnings versus 2013. All our business units had improved results in the fourth quarter compared to the prior year.

We recovered our margins through what can only be described as a very volatile period of raw material inflation and in fact we structurally achieved our strategic gross margin levels in the business in the fourth quarter.

While the pricing action we took in May led to a demand response which continues to impact our volume, we are encouraged and confident that our targeted and measured response was the right approach to that.

We advanced our supply chain conversion and the finish line is clearly in sight, closed a small plant in the fourth quarter and will cease production at our largest legacy facility tomorrow. This is a very, very significant milestone for us. As we near completion of this strategic supply chain transition we are on track to deliver a 10% EBITDA margin run rate in 2015.

Finally, we increased our quarterly dividend in this period, which represents the first step in a purposeful, broader capital allocation strategy and reflects our confidence in the outcome of our strategies.

Turning your attention to slide number 3, please. Slide 3 shows the progression towards our EBITDA margin target. While our results continue to reflect the cost of change, we delivered a very significant improvement in our adjusted operating earnings with a loss of CAD14 million compared to last year of over CAD56 million in the fourth quarter.

Adjusted EPS was a loss of CAD0.08 compared to last year, negative CAD0.41 per share. Adjusted EBITDA margin for the quarter was 1.5%; this represents an improvement from our low watermark a year ago as we progress towards our 10% EBITDA margin target.

Let's turn to slide 4 where we provide a breakout of the material factors that contributed to the CAD42 million year-over-year improvement in our adjusted operating earnings in the fourth quarter. The first bar illustrates the CAD27 million improvement in protein market conditions. Most of this is attributable to our hog production operations which benefited from a combination of higher hog prices and lower grain costs.

Poultry markets were also favorable in a quarter-over-quarter basis. Pork markets were not materially different from the prior year and were consistent with the five-year average. We expanded our prepared meats margin by CAD21 million over a year ago which is shown on the next bar, a very strong accomplishment. Also important to note, that this is a lapping a quarter in 2013 where we were essentially absorbing raw material cost increases.

In Q4 we have brought our gross margins in line with our strategic targets. As anticipated the price increases in prepared meats has impacted demand and resulted in short-term volume decline with the year-over-year impact of CAD13 million. I will provide some more color on this shortly.

Next is a CAD9 million year-over-year increase in the transition costs primarily due to the higher commissioning costs of our new heritage facility, the largest in our prepared meats network.

And finally, the other bar totaling CAD15 million represents a number of items including a significant year-over-year reduction in SG&A relating to the timing of spend.

On slide number 5, I want to provide some additional commentary on our prepared meats volume. Last year was a very volatile period of raw material inflation, as you all know, which we managed through responsible and necessary pricing. This pricing action led to some volume contraction which has continued to negatively impact results in the fourth quarter.

We strongly believe that the response to this is simply time and patience and that is appropriate for the following reasons. First, this was one of the most significant pricing actions ever in our history. Second, most of the volume impacts have been very category specific, and by that we mean categories like bacon and ham which are more price sensitive. Third, the impact was mostly a brand private label share change which we believe will normalize.

And finally, and certainly most importantly, the long-term fundamentals are now moving in our direction for both currency and commodities. Adding to our confidence we are seeing early indicators of improved performance in prepared meats volumes in the first quarter of 2015 which gives us some confidence that that path of time and patience is the right one.

On slide number 6 we've updated the path to our margin target. The largest contributor, which represents over half of the improvement at 6 percentage points, or roughly CAD180 million annualized, increase in the operating earnings is a completion of the network transition.

This has two components. The first is elimination of transition costs, primarily duplicate overhead and start-up costs at the new heritage facility. The balance will come from realizing the full benefits of our new streamlined low-cost manufacturing network. In essence this is the delta between full added cost and contributing benefits from the capital spend.

This bar represent a larger amount in Q4, slightly larger than it did in Q3 by 0.6 percentage points to be precise, because the cost tied to commissioning our heritage facility exceeded the pace at which we could shed costs in our legacy plants and the start-up costs at heritage were significant.

Over the last few quarters we've incurred indirect costs in our legacy facilities which represents 1% of this bridge or approximately CAD30 million of operating earnings on an annualized basis.

The third bar represents volume. This is worth 2.9% of EBITDA margin or approximately CAD90 million annualized which I previously discussed.

The other component consists of a number of smaller items, the most significant is that we assumed in the 10% EBITDA margin target that our hog production business would break even, while in the fourth quarter it has outperformed that assumption. The balance of this bar is primarily related to timing of SG&A spending.

In summary, although I can provide exact and precise timing, we continue to be confident that we will reach our target in 2015 inside the time ranges that we've previously described.

Turning now to slide 7 and an update on our prepared meats network transition, we made considerable progress throughout 2014 with the closure of three manufacturing facilities including a smaller legacy plant in Winnipeg at the end of December.

Tomorrow is a very meaningful milestone, it will mark the significant closing of the largest of our legacy facilities, the former Schneider's plant in Kitchener, Ontario. This was the largest facility in our legacy network.

We have one last plant to close located in Toronto. It is difficult to estimate the exact closure date because it is predicated on a clear line of site to production readiness at the Heritage facility, but we have not changed our perspective on prior timelines, as we have discussed.

At the same time we are continuing to optimize those plants where we have made large investments. This optimization phase is already substantially complete for two of the three expanded facilities located in Winnipeg and Brampton. The optimization of the cooked sausage plant in Saskatoon continues.

The production ramp up at the Heritage facility is going quite well. Transfer of all wiener SKUs has been completed and the focus of this line is on optimization. In the sliced meats line the SKU transfer is progressing. Completion of the SKU transfers will trigger the closure of the final facility in Toronto and after that the optimization phase for the deli meats line will begin and continue throughout the next quarter or two.

To summarize, in 2015 the duplicate overhead costs will be ending with optimization costs mostly significant at Heritage that will continue throughout a portion of 2015.

Turning to slide number 8, the breakout costs related to our network transition are shown in this slide. Transition costs were CAD24 million in the quarter, consistent with the prior quarter. These largely represent start-up costs at our Heritage facility along with increased overhead costs related to running duplicate facilities throughout the transition. Total transition costs for 2014 were CAD97 million.

There are three drivers of these transition costs, the first is commissioning costs which primarily relate to the heritage facility and will continue for the duration of that commissioning period. Duplicate overhead is the second and it is expected to decrease starting in March in conjunction with the closing of our Kitchener plant. The third and smallest bucket of transition costs is the dedicated resources that are executing this transition with these costs going away when we complete the final moves.

I will now to the call over to our CFO, Debbie Simpson, who will give you a financial perspective. Debbie?

Debbie Simpson - *Maple Leaf Foods Inc. - CFO*

Thank you, Michael. If you could turn to slide 9 I will now discuss capital allocation on our financial position. Earlier today the Board of Directors voted to increase the regular quarterly dividend to CAD0.08 a share from CAD0.04. This will increase our dividend yield to approximately 1.5% positioning us in the lower end of the range of our CPG food peer group.

This follows the completion of our strategic capital investments in our prepared meats supply chain and is the first step in a broader capital allocation strategy. Capital allocation will continue to be a focus for the Board in 2015. We will carefully review the appropriate leverage structure for the Company and potential opportunities for what responsible capital deployment on acquisition and in the business might be.

At the end of 2014 there were CAD496 million in cash on the balance sheet, a reduction of CAD14 million from Q3. The largest factors contributing to this change were: cash provided by operating activities during the fourth quarter of CAD16 million; and capital expenditures in the fourth quarter were CAD35 million compared to CAD88 million in the prior year.

Turning to slide 10, annual capital expenditure for 2014 on continuing operation were CAD216 million, which was in line with our forecast. The capital spending for the prepared meats transformation is now substantially complete and largely in line with our initial estimate to complete this program.

There remain some additional plan spend in 2015. However, we believe that this will be offset by some capital inflows of roughly the same amount. Total capital expenditures for the transformation period 2010 to 2014 were within 5% of our original plan. The capital spending program for 2015 is estimated to be CAD120 million, which includes maintenance capital spending as well as some profit improvement projects.

Moving to slide 11, in the fourth quarter the Company recorded CAD11 million in restructuring costs of which approximately CAD7 million related to future cash costs and CAD4 million to non-cash costs such as accelerated depreciation.

Total restructuring costs for 2014 were CAD67 million compared to CAD75 million in 2013. The 2014 number included CAD37 million of restructuring charges related to the prepared meats network transition. This was primarily employee retention, severance costs and accelerated depreciation for the two facilities that are closing this year.

In addition, there were CAD30 million in severance costs related to the reorganization of our SG&A structure following the sale of the Bakery business.

For 2015 we estimate that restructuring costs will be approximately CAD13 million, of which CAD9 million will be cash costs. This lower level reflects the near completion of our transformation initiatives and does not include potential restructuring charges for projects that are not underway. Thanks and I will now return the call back to Michael.

Michael McCain - *Maple Leaf Foods Inc. - President & CEO*

Thank you, Debbie. I'd like to turn your attention momentarily to slide number 12 because there are a number of broader economic factors that we believe are setting us up well for 2015 and beyond and influence our macro environment.

First, over the medium- to long-term a devaluation of the Canadian dollar is a very positive development for Maple Leaf as it improves our relative competitiveness versus the US. This impacts us domestically and in our export markets. I would caution you, however, that this positive impact does take a little time to materialize because in the short-term our cash flows are relatively balanced.

Second -- the second favorable economic trend is lower energy costs, and obviously that impacts our cost structure.

Finally, both grain prices and hog prices are moving lower and the futures market suggests that they will remain there for a while and that too benefits our business in the near-term.

The combination of these factors we believe provides a potential tailwind for us coming into the balance of 2015 and beyond.

Let me wrap up on slide number 13. In the fourth quarter of 2014 it is very important to us to point out that we had solid improvement in our earnings. We are very satisfied with that and we're entering 2015 with what we believe is very positive momentum.

We began this journey to transform our prepared meats supply chain in 2010, and now the finish line is in sight as we enter this final phase of operational optimization.

The heavy lifting for capital spending and all of the restructuring costs that go with that is substantially complete. We've structurally improved our margins in the prepared meats businesses, the majority of our business, and we are carefully managing our volume recovery.

There are a number of macroeconomic factors that we think are setting us up well, things like the lower Canadian dollar, lower energy costs, more favorable commodity environments, and we continue to feel that we are on a very clear path to deliver our 10% EBITDA margin run rate in 2015.

As we enter this period manufacturing stability we will be able to turn our attention to a growth agenda, we are very excited about that. And we intend to pursue our optimal capital allocation strategy through that period.

I would now like to turn over the call to your questions. Thank you. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Irene Nattel, RBC Capital Markets.

Irene Nattel - *RBC Capital Markets - Analyst*

Michael, as you get ready to shut down the Kitchener facility, can you just walk us through how you would expect the production flow and the improvement in earnings to kind of come through on the income statement in coming months?

Michael McCain - *Maple Leaf Foods Inc. - President & CEO*

Well, there's a number of components that go with that, Irene. There are a number of components of that. The first is the relatively immediate impact, I say immediate -- there is a short period of time of decommissioning in these overhead structures but relatively quick, a decline in the overhead costs and the wage and salary costs that go with the Courtland facility.

This is a major milestone in the sense that this plant is well over 100 years of age, it is a big component of the community in Kitchener and they've done an extraordinary job throughout a difficult transition. So it is a significant and historic milestone for us.

The first financial implication that will be, as I said, the decline in the overhead costs attached to that. We then get, which we have been getting and progressing towards. Every time we move a kilo of production from Courtland into the new facility, there is a reduced standard cost in the new facility. So there is a costing benefit attached to that.

And then finally and most importantly, we are only six months into the startup phase of the sliced meats component and we will realize the benefit of optimization of those lines to improve obviously labor productivity and yields towards what we expected in our business case. And our track record is pretty good on that. It does take a little bit of time, not excessive but it does take some time.

So it is a progression of those components. But then the only remaining ingredient is to finish the SKU moves from the Toronto facility and go through the same components of Toronto which is imminent. And then we get into the final optimization at Heritage.

What all that -- how all that translates in terms of progression, Irene, I mean we have historically been describing these commitments in the bandwidth of a window and that window has said that we would achieve these run rates sometime in 2015.

More specifically I have narrowed that down many times from anywhere from now to the third quarter I think is probably a more accurate reflection of that and I still believe that's exactly where we will be. So between now and the end of the third quarter I think you will see steady progression of those building blocks unfold to achieve that target.

Irene Nattel - *RBC Capital Markets - Analyst*

That is really helpful because that is what I really wanted. So we should see sort of upward movement in the profitability as we get into Q2-Q3, okay, perfect.

Michael McCain - *Maple Leaf Foods Inc. - President & CEO*

Absolutely.

Irene Nattel - *RBC Capital Markets - Analyst*

That's great. And then just if I may, the growth agenda. Obviously the last seven years have been all about rightsizing the existing footprint. But as you are starting to turn your attention forward, can you just sort of update us on your thoughts around geographies, product lines, size, what you would like to do?

Michael McCain - *Maple Leaf Foods Inc. - President & CEO*

We are actively working on that, Irene. I don't have anything to say today that I would feel comfortable discussing in any length other than what I have discussed to date. And those are things like our Italian meats strategies as a potential option, although it is a smaller one. The poultry strategy is one that we are investigating, there is obviously no decision. Those are a couple of examples.

We have several others that we are considering. It is absolutely essential for us to be purposeful, analytic, deliberate about designing a vibrant growth strategy. That is our nature to be that way and we are in the middle of that process of defining a very purposeful growth strategy that will carry us through the next five or more years.

So I can't really give you any insights. I certainly don't want to give away any competitive components of that growth strategy as well. But suffice to say, it is actively on our agenda now for investigation and we are working hard towards that.

Irene Nattel - *RBC Capital Markets - Analyst*

That's great. And then just finally, Michael, again, just thinking from our perspective how we should think through this. Presumably the decision about the growth agenda is intrinsically enmeshed with the decision around capital allocation and potential return of capital. Now on the subject of return of capital to shareholders. So should we be kind of expecting that you will come back to us with both of those elements at the same time?

Michael McCain - *Maple Leaf Foods Inc. - President & CEO*

I think iteratively. I would not look for a big bang conclusion here. I think we are going to have a very purposeful, deliberate capital allocation strategy inside the Maple Leaf organization. It will be very shareholder centric.

And by that I mean we will find our desire and the Board's desire, my desire, the management team's approach will be to be very purposeful in the balance between the deployment of capital and the distribution of capital, and having appropriate models to determine what is optimal for the shareholders.

By that I mean a great strategy that deploys capital has to be obviously very focused on the adequate risk adjusted returns to shareholders in a tangible way that we feel very comfortable with. And obviously defining that growth agenda is important to us in that it informs what our capital allocation strategy should be.

To the extent that we don't have opportunities to invest in a growth strategy that meets those conditions, then we would distribute capital and distribute it in a way that we have described I think very articulately in the past and that hasn't changed.

I also think that we will be purposeful. We announced one component of that today. The adjustment in our annual or quarterly dividend, which is purposed to reflect the fact that Maple Leaf is a packaged goods Company and the share price has moved meaningfully and we need to reflect that in an appropriate dividend yield. And so that is a well purposed component of a good capital allocation strategy on the distribution side of the equation.

So this is a dynamic relationship between deployment opportunities and distribution opportunities and we are going to evolve that way. It is not going to be one specific outcome, Irene.

Irene Nattel - *RBC Capital Markets - Analyst*

That is great, thank you very much.

Operator

Michael Van Aelst, TD Securities.

Michael Van Aelst - *TD Securities - Analyst*

I'd like to focus first on the volumes. And you suggested that early indications in Q1 are that you are seeing signs of a recovery in volumes. I would like to -- I was hoping you could give us some color as to what might be driving that. Is that just the market getting more accustomed to the higher prices or are you taking advantage of the lower hog costs and starting to promote more lower prices?

Michael McCain - *Maple Leaf Foods Inc. - President & CEO*

It is a combination of all of those things, Michael. I mean, at the end of the day when you're facing a situation like this a very tactical response is there's usually not one thing, it is a collection of many dozens of things and they all have certain themes to them.

Certainly in certain segments we are seeing the ability to tactically respond because of just the declining market conditions which help us do that and maintain our margin, so we accomplish both. But equally we are also seeing with the passage of time some additional assimilation with new price points and the habitualization of new price points. So that is a part of it.

You start to see migration back to brand features and merchandising events versus private label, start to see the impact of just longer time periods when those price points have been in the marketplace and consumers habitualize around those.

So it is a combination of all of those. We did have a number of where we had to adjust our merchandising and basically to suit the new environment, the new pricing environment. We had to adjust our merchandising in certain retail channels.

So it is a combination of literally dozens of tactical responses. But it did warrant time and patience. Obviously we were disappointed in Q4's volume outcomes, but it still warranted time and patience and I think that is being rewarded as we move into 2015.

Michael Van Aelst - *TD Securities - Analyst*

So when we look at that 290 basis points of margin improvement that is going to come from volume recovery, what is the magnitude of the volume growth that you need to see from the current run rate, whether you are talking about market share growth or volume growth, what kind of magnitude are we talking about?

Michael McCain - *Maple Leaf Foods Inc. - President & CEO*

It is mid-single-digits.

Michael Van Aelst - *TD Securities - Analyst*

So, like a 5% growth in volumes can get you almost a 300 basis point improvement in margins?

Michael McCain - *Maple Leaf Foods Inc. - President & CEO*

I mean that 5% to 8% range.

Michael Van Aelst - *TD Securities - Analyst*

Okay, and just finally, when you look at your CapEx for the year you are talking about CAD120 million, I think your maintenance was something in the CAD80 million range or so.

So the incremental that you contribute to profit improvement programs, is that -- does that kind of go along the same lines as your comments from the previous quarter where you said 10% margin is a floor, not a ceiling --

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Michael McCain - *Maple Leaf Foods Inc. - President & CEO*

Yes.

Michael Van Aelst - *TD Securities - Analyst*

-- and I guess this kind of a capital program would help you get above that?

Michael McCain - *Maple Leaf Foods Inc. - President & CEO*

Yes. I mean in this industry there is always opportunity to find profitable growth through investing in the business in a relatively small and tactical way. But we expect over the next five years to grow our margins, not contract them. We don't see 10% as a steady-state.

Michael Van Aelst - *TD Securities - Analyst*

Okay, thank you very much.

Operator

Ken Zaslow, BMO.

Ken Zaslow - *BMO Capital Markets - Analyst*

So just a couple questions. One is, the 6% network transition incremental, how much of the CAD97 million is going to go away in 2015? I didn't fully understand that.

Michael McCain - *Maple Leaf Foods Inc. - President & CEO*

I have got to calibrate the CAD97 million as a component of the 6% -- the 6% is a bigger number than the CAD97 million. So the 6% on an annualized basis, Ken, is about CAD180 million, not CAD97 million.

Ken Zaslow - *BMO Capital Markets - Analyst*

Right, that is what I was getting at is, okay, so how do you get to that 6%? If all the transition costs go away what is the incremental over that to get to the 6%? I thought it was just everything going away.

Michael McCain - *Maple Leaf Foods Inc. - President & CEO*

No, because in the transition costs of CAD97 million, which was basically CAD24 million in the quarter times four, those are things like duplicate overhead, incremental resources to support that transition, commissioning costs, that does not include the benefits attached to the capital.

The delta between the two is a combination of those excess costs plus the benefits attached to moving the volume to a lower cost facility.

Ken Zaslow - *BMO Capital Markets - Analyst*

Okay. And then the degree of certainty of this, can you -- I guess -- I don't know how to say this. For the last two years -- you have not achieved expectations on a consensus basis since 2012. So I am trying to figure out what gives you -- is there a level of confidence that you have that we will start to see the -- this CAD97 million plus as an additional benefit, go and make that transition?

What type of confidence do you have in that? And how does that differ than the last two years where maybe you didn't hit the expectations that maybe you thought you might hit?

Michael McCain - *Maple Leaf Foods Inc. - President & CEO*

So we have always been, Ken, and you raise a very good point -- we have consistently had high levels of confidence in the end state while simultaneously having an incredible lack of confidence on our ability to predict the milestones in between.

The volatility and unpredictability of transition is, shall we say, acute. So our ability or inability to gauge quarter-to-quarter progress or performance in a state of instability and transition, frankly not only doesn't surprise me, it doesn't concern me.

Ken Zaslow - *BMO Capital Markets - Analyst*

Okay.

Michael McCain - *Maple Leaf Foods Inc. - President & CEO*

What is most important to me is what confidence do we have in the end state when all of these start-up and transitional costs and volume volatilities and all of the myriad dozens and dozens and dozens of issues that crop up and occur, some planned, some unexpected, in the process of transition when those are over.

And so, I've said consistently I have high levels of confidence in the end state, I don't necessarily have confidence in the interim milestones of financial results along the way, or necessarily the timing inside this nine-month kind of window that we have described many times in the past.

So your point is a good one. I don't think that you should draw a straight line between confidence of the milestones in the interim instability to confidence of the end state.

Ken Zaslow - *BMO Capital Markets - Analyst*

With the reduction of the pork complex --.

Michael McCain - *Maple Leaf Foods Inc. - President & CEO*

With the what, please?

Ken Zaslow - *BMO Capital Markets - Analyst*

With the pork complex, all of the input costs that you have, they have obviously gone down by material amounts. Does -- why does that not accelerate your ability to hit the 10%? Or is it required for you to hit the 10%?

Because, given that the conditions have changed so markedly over the last one to two quarters, I would think that there needs to be an adjustment either in timing or something to it. And there was nothing of a comment just about that. Has there been a market change?

Michael McCain - *Maple Leaf Foods Inc. - President & CEO*

It is a market change. But while the commodity has gone down, Ken, there is an incredibly complex set of calculus here when you overlay the impact of the Canadian dollar. So to a processor in Canada who is simply buying raw materials the commodity has gone down, but the currency has offset that materially causing the commodity values in Canadian dollars to Canadians to actually go up, right.

So that is why, as I said in my remarks, the short-term cash flow here is relatively stable in terms of its impact of the Canadian dollar short-term. With the passage of a little time, you say, well how much time. It can depend on market conditions and how this unfolds inside the market, it could be six, nine months, maybe even a year or two before this unfolds.

But a lower Canadian dollar does have a very substantial positive impact on our business with the passage of time. But in the short-term it does offset the decline in the commodity markets relative to our raw material costs in our packaged meats business.

Ken Zaslow - *BMO Capital Markets - Analyst*

Okay, my final question is, when you suspect that you will be profitable on an operating profit level in 2015, is it as soon as 1Q or will we see that second, third and fourth quarter? Like how do you think -- because your meat product actually went down sequentially, and I understand the Agribusiness went up, but it was probably more because of hog prices. Will we actually see profits in the first and second quarter or is it still going to be a run rate of negative?

Michael McCain - *Maple Leaf Foods Inc. - President & CEO*

So we have not done forward looking earnings, Ken, so I don't plan to begin that practice. As I said, I think what we have been very consistent on is that I believe that we will achieve our 10% run rate in 2015, I believe that more specifically we expect that to be sometime between the first and the third quarter. And I believe we are going to make continuous steady progress towards that goal between now and the run rate.

Ken Zaslow - *BMO Capital Markets - Analyst*

Thank you very much.

Operator

Derek Dley, Canaccord Genuity.

Derek Dley - *Canaccord Genuity - Analyst*

Just had a question on -- just to be clear, on the CAD120 million capital spend, the CAD40 million incremental that is strategic capital or scheduled for profitability improvement, that is not included in your current 10% EBITDA margin target?

Michael McCain - *Maple Leaf Foods Inc. - President & CEO*

No.

Derek Dley - *Canaccord Genuity - Analyst*

Okay, great. And just moving on to the ramp-up at Heritage. In the past when you said that you weren't willing to turn off your legacy facilities until you were comfortable that heritage is operating consistently at a peak load basis. So is it fair to say with the closure of Courtland Avenue tomorrow that you are at that level at heritage?

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Michael McCain - *Maple Leaf Foods Inc. - President & CEO*

No. It is fair to say that we are substantially better than what we were and an enough along that curve where we can close our very largest facility in the network which happens to be the Courtland plant. We have one more yet to go. So I think for us to demonstrate peak load is when you cut the final cord of that last facility.

But honestly, we are making significant progress because now we are shedding the overhead and realizing the benefits attached with our largest facility -- the Courtland facility, it was the largest in our legacy network, Derek.

Derek Dley - *Canaccord Genuity - Analyst*

Yes. No, understood, okay, that's --.

Michael McCain - *Maple Leaf Foods Inc. - President & CEO*

So that condition of peak load requirement is not something you would make until you burn the final bridge.

Derek Dley - *Canaccord Genuity - Analyst*

Okay, understood. But the Bartor Road facility is a lot smaller than Courtland Ave.?

Michael McCain - *Maple Leaf Foods Inc. - President & CEO*

It is.

Derek Dley - *Canaccord Genuity - Analyst*

Great. Okay, great, thank you very much.

Operator

Mark Petrie, CIBC.

Mark Petrie - *CIBC World Markets - Analyst*

Just a couple questions. With the health in the hog production side of the business how does that impact, if at all, your view on the presence in that segment and your vertical integration and the amount of investment that you have in hog production?

Michael McCain - *Maple Leaf Foods Inc. - President & CEO*

I am not sure I understand your question really well.

Mark Petrie - *CIBC World Markets - Analyst*

Well I guess, sorry, just -- I mean just to clarify. You guys have sort of changed at different points the amount of your internal -- of your total hog meat that you produced internally. And so I guess I'm just trying to understand the extent to which a healthy hog production industry could mean that that level would change.

Michael McCain - *Maple Leaf Foods Inc. - President & CEO*

I don't -- the fact that it's healthier today than it was when we acquired those assets I think is good news. We didn't have a strong desire to invest more assets in that segment of the value chain, but we did. Clearly in retrospect we did that at a time when it was opportunistic and the health of the hog production sector today is considerably better than it was then. That is the good news.

In terms of whether or not it would impact our desire to change that percentage today, I think probably not. We have that position today. We are realizing reasonably satisfactory returns in that segment of the value chain at this moment.

At times if I felt that if we had an opportunity to divest those assets but maintain long-term relationships of supply because we are in that link of the value chain because we need the supply for our branded facility, then that's certainly something I would consider.

But the prospects are very low for that to occur. So I honestly don't think we should anticipate any material change in that for the foreseeable future.

Mark Petrie - *CIBC World Markets - Analyst*

Okay, that's helpful. You spoke about some timing impacts in SG&A. Can you just clarify how substantial that was and how we should think about run rate SG&A either as a dollar amount or as a percentage of revenue?

Debbie Simpson - *Maple Leaf Foods Inc. - CFO*

The Q4 timing was really related to year over year. We had some expenses in the prior year that we recorded in Q3 and in this year recorded in Q4. So it is a mismatch and there were actually pickups as opposed to expenses.

So it was a mismatch of timing from one year to another. That would not be the norm. So you wouldn't expect to see that upside going forward. It really just is a shift in timing between Q3 and Q4 in both years.

Mark Petrie - *CIBC World Markets - Analyst*

So, on a run rate basis?

Michael McCain - *Maple Leaf Foods Inc. - President & CEO*

Well, on a run rate basis, I think if you took the annual number for 2014 certainly the back half of 2000 -- not the annual number. But if you annualize the back half of 2014 I think you would probably be pretty close to the mark.

Mark Petrie - *CIBC World Markets - Analyst*

Okay, that is helpful. And then just lastly, in terms of the dividend and coming to the CAD0.08 a share per quarter, how did you come to that level? I think you kind of said it was -- there was a yield that you wanted to hit, but was there more to it?

And obviously I assume we will get more clarity on a policy -- on an actual policy going forward when you clarify the capital -- return to capital -- return of capital plans. But how did you get to the CAD0.08?

Michael McCain - *Maple Leaf Foods Inc. - President & CEO*

We arrived at the CAD0.08 basically -- our peer companies in CPG world, packaged goods and the food industry would have a range anywhere from 1.5% to 3% on a dividend yield basis. This puts us at the low end of that range.

We thought it was appropriate at this juncture to make a step forward in our both capital allocation and in return of capital to shareholders, but do it in a responsible way to get to a level that is both sustainable and a level where we feel we can very purposefully grow that dividend over time. And so we just basically picked that level.

We think that is the responsible thing to do at this moment, it reflects the fact that we are coming into 2015 with what we think is tremendous momentum. It reflects the fact that where six and nine months ago we had tremendous lack of clarity and instability, where we now have some pretty good visibility and confidence. So it kind of reflects that confidence.

And we think that at this level, while it is at the low end of that CPG range, it is at a sustainable level and one that I think we can grow it from here. So putting all those factors together this is the level that we chose.

Mark Petrie - *CIBC World Markets - Analyst*

Okay, thanks very much.

Operator

(Operator Instructions). Irene Tarkov, Lightspeed Partners.

Irene Tarkov - *Lightspeed Partners - Analyst*

Wanted to see if you can comment on what volumes you are going to deliver into Kroger and when we should see them in the numbers and sort of what are the growth potential there?

Michael McCain - *Maple Leaf Foods Inc. - President & CEO*

Well, certainly we have never really been in a position to comment on individual customer relationships, Irene, so I hope you can respect that. But we do think, particularly with the lower Canadian dollar, that there is tremendous opportunities for us to both repatriate volume in the Canadian marketplace that has been subjected to competitive pressure from the US over the last six or eight years, but also export into the US in specific niches where we have available capacity.

The only caveat to that is business development cycle. These things are not on/off switches. I wish they were, but there can be relatively -- no matter what the economic circumstances are there can be some rather lengthy business development cycle and relationships with individual customers and channels and brands and so on and so forth. And we are working that very hard as we speak.

Irene Tarkov - *Lightspeed Partners - Analyst*

Do think it is going to be in 2015 that your products will end up on the shelf in the US or no?

Michael McCain - *Maple Leaf Foods Inc. - President & CEO*

Our products are already in the US on the shelf. So we do sell into a number of different markets today in the US, so that is an easy answer is yes. The question is, how much growth that drives. We are pretty confident that the volume gap that has existed so far since we raised our pricing, we think that these fundamentals will be a significant contributor to closing that gap.

Irene Tarkov - *Lightspeed Partners - Analyst*

And then my second question is in terms of this growth CapEx of CAD40 million that you are estimating for 2015, what exact projects are you targeting with that? Because it's -- we thought that the growth CapEx phase was over, we were going on (inaudible). So what exactly are you going to spend CAD40 million on?

Michael McCain - *Maple Leaf Foods Inc. - President & CEO*

Well, there there are a number, and there always will be, initiatives that are profit enhancing throughout the Company, Irene. In this particular case we've got a number of very lucrative capital investments in our Brandon facility that we are pretty excited about. And we expect that to improve our profitability going forward.

While I do believe, as I've said in the past, that 10% EBITDA margins is our strategic objective for 2015, going forward we see that as a floor, not a ceiling. But I don't believe that migrating our capital beyond 10% is going to be completely capital free. There will be profit enhancing capital along the way over and above the maintenance capital numbers that we have articulated in the past.

I believe that we have been pretty clear that there would be strategic projects certainly when you are dealing with a collection of projects at the magnitude of CAD40 million, which is relatively small, I don't believe that there is any one common theme other than opportunities like I described at the Brandon facility. That would be the largest, but there is probably several dozen inside that collection.

Irene Tarkov - *Lightspeed Partners - Analyst*

Okay thanks.

Operator

Thank you. And we have no further questions registered. I'd like to turn the meeting back over to Mr. McCain. Please go ahead, sir.

Michael McCain - *Maple Leaf Foods Inc. - President & CEO*

Okay. Well, thank you very much, I appreciate your support and interest in this transition. We are coming to the close. We have very solid momentum in our earnings and we are moving into 2015 I think with a very high level of confidence and very much looking forward to getting through the finish line here. So thank you very much for your attention and we'll look forward to updating you in the next quarter. Have a wonderful day.

Operator

Thank you, the conference call has now ended. Please disconnect your lines at this time. Thank you for your participation.